Stockholder's Reports

Dear Stockholder: 1990

Your company is continuing its solid growth in a rapidly and radically changing world.

Political and economic developments are creating new opportunities for us. The borderless European Community planned for 1992, together with Eastern European countries now experimenting with free market systems, will constitute a larger market than North America.

We are well positioned to prosper from these changes. We have had a major international tobacco presence for more than 20 years. We have been the largest cigarette company in Europe since 1983, and in 1990 we widened our lead.

We took an important step to strengthen our competitiveness in European food markets by acquiring Jacobs Suchard AG, a Swiss-based coffee and confectionery company. This $4.1 billion purchase makes us the third-largest food company in Europe, and brings us brands and distribution channels in countries where we needed to broaden our business.

The consolidation of European markets is not the only key to our growth.

Although the cigarette market in the United States is declining slightly, we continue to gain volume and share. Our business in Asian cigarette markets, particularly Japan, is building rapidly. And in September 1990, we reached a major agreement to export cigarettes to the Russian Republic, the largest republic in the world's third-largest cigarette market—the Soviet Union. Both developments add impetus to the continued expansion of our international tobacco operations.

We are devoting ever increasing resources to the building of our food businesses. By pooling the research and talents of people in different parts of Kraft General Foods and applying them to a shared challenge, we accelerated the introduction of fat free foods in seven categories this past year. We have announced introductions in still more categories in 1991.

In 1990, we increased our dividend by 25.1%, to an annualized rate of $1.72 per share, marking the 23rd consecutive year of dividend increases. Through our stock repurchase program, we spent $221 million in 1990 to repurchase Philip Morris common stock, at an average price of $38.88 per share.

1990 Results

Consolidated operating revenues of $51.2 billion were 16.1% higher than in 1989. Our 1990 performance includes operating results from Jacobs Suchard since its acquisition.

Our operating companies income grew 22.1% to $8.7 billion. Net earnings were $3.5 billion, up 20.2%, and net earnings per share reached $3.83, 20.4% higher than in 1989.

Philip Morris management visiting Masuo Fukujin, a Tokyo retailer. Left to right: Hamish Maxwell, Michiko Egawa (Philip Morris Japan), Michael Miles, William Murray, Nicolaas Kuijpers (Kraft General Foods International), Mr. Fukujin, and Jonn Keenan.

Our tobacco operations enjoyed continued sales and profit growth. We sold one billion more cigarettes in the United States in 1990 than in 1989, while U.S. industry volume, based on shipments, declined 1.8 billion units. Outside the United States, we sold 368.1 billion units, 15.5% more than in 1989, bringing our tobacco factory utilization rates around the world close to full capacity.

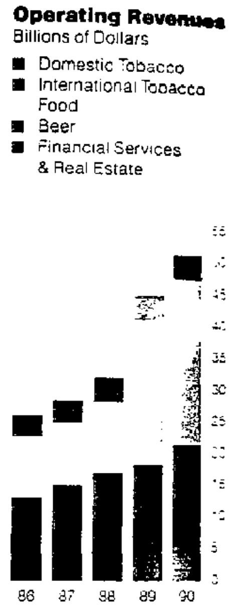
At Kraft General Foods, volume grew by 6.5% for the year. Excluding Jacobs Suchard, volume grew by 3.3%, while revenues and operating companies income continued to grow strongly, and operating margins also improved. Including a full year of 1990 Jacobs Suchard results on a pro forma basis, our food companies would have contributed approximately 52% of our revenues and 31% of our operating companies income, while employing 66% of our work force.

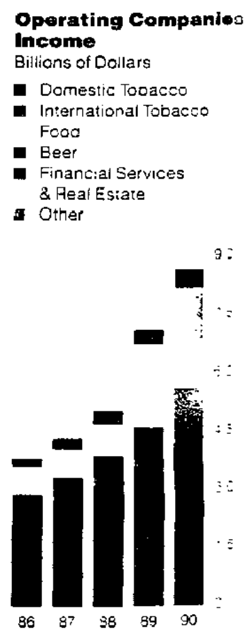
Miller Brewing Company volume was up by 1.6 million barrels, or 3.8%, and operating companies income advanced by 26%. Five years of steady growth, fueled by successful new product introductions, have helped Miller build its position as a major competitor in the consolidating beer industry.

Management and Board of Directors

In April, Richard D. Parsons, Chairman and Chief Executive Officer of the Dime Savings Bank of New York, FSB, joined the Philip Morris Board of Directors.

Also in April, two members of your Board, Howard L. Clark and William P. Tavoulareas, retired in accordance with our policies. Each had served with distinction on the Board of the General Foods Corporation prior to its acquisition by Philip Morris in 1985. Their wisdom, experience, and insights





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have contributed great value to Philip Morris during their years of service on your Board.

Social and Legislative Issues

We market more than 3,000 products to millions of consumers around the world. Our activities involve us in a host of public policy issues in every country in which we do business.

Among all these social issues, the relationship between smoking and health is the most controversial. We have acknowledged that smoking is a risk factor in the development of lung cancer and certain other human diseases, because a statistical relationship exists between smoking and the occurrence of those diseases. Accordingly, we insist that the decision to smoke, like many other lifestyle decisions, should be made by informed adults. We believe that smokers around the world are well aware of the potential risks associated with tobacco use, and have the knowledge necessary to make an informed decision.

The U.S. cigarette industry is both mature and highly competitive. Outside the U.S., most cigarettes are made and sold by government-owned enterprises; we are competing—for instance—against the elected governments of Japan, Italy, and France. Our competitors throughout the world are just as eager to attract our customers as we are to attract theirs. It is against this competitive background that we engage in marketing programs designed to persuade existing smokers to use our brands. We believe that such programs affect brand choices, but not the decision to smoke.

Many experts and studies—including those cited by the U.S. Surgeon General and the U.S. Environmental Protection Agency—remain divided over the relationship between environmental tobacco smoke and human health. We favor policies which accommodate and, if necessary, segregate nonsmokers and smokers in the workplace and in confined public spaces. We do not believe that the prohibition or unreasonable regulation of cigarette use in such places is justified, and we will, therefore, continue to oppose such proposals.

Cigarette product liability is the most publicized legal issue we face. By the end of 1990, the number of product liability cases pending against the U.S. cigarette industry dropped to 51, continuing a decline from a peak of 151 in 1986. We view this trend as a positive development for both your company and the U.S. tobacco industry.

The Outlook

Our goal is to be the world's most successful consumer packaged products company. We will continue to judge that success not only against our own past performance but against that of our competitors. Moreover, we will measure success not merely in terms of income and volume growth and in overall returns to our stockholders; we also aim to be the best in anticipating and providing for the needs of our consumers and customers and in accepting and fulfilling our responsibilities to the communities in which we live and work and to the environment in general.

No company can take these for granted. The war in the Persian Gulf, together with slowing economic growth in many countries, added to the risks and uncertainties of doing business. Fortunately, our products are consumer staples, and our businesses are relatively resilient.

To improve our effectiveness in each of our core businesses, we will continue to expand and fill in gaps while taking advantage of manufacturing, marketing, and distribution synergies. Acting on this strategy in 1990, we purchased a cigarette manufacturer from the former East German state; announced a marketing and manufacturing joint venture with the largest Hungarian coffee and confectionery producer, BEV; and acquired majority ownership of Negroni S.p.A., a specialty meat company in Italy.

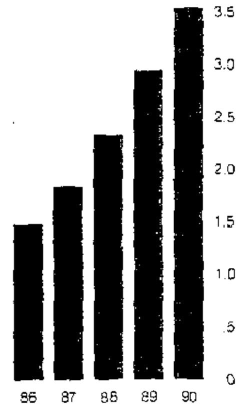
To assure consistency, quality, and availability of our brands, we are investing in our production processes. In 1990, our capital expenditures set a new record of $1.4 billion. We anticipate that from 1991 to 1995 they will amount to another $9.0 billion. We are also addressing increasingly urgent environmental concerns, even as we continue to find new ways of satisfying consumer desires for convenience, nutrition, and variety.

Our greatest competitive assets are not manufacturing facilities or brand franchises, however, but the talents, energies, and dedication of all our employees. We are only as strong as our employees are ambitious for our businesses. We thank them for all their past contributions and we count on their continued efforts to help us realize our potential to be the best consumer packaged products company in the world.

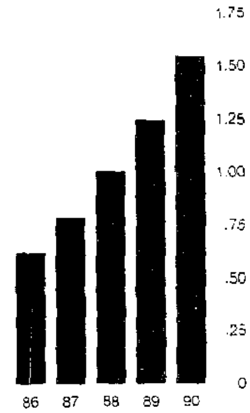
Hamish Maxwell

Hamish Maxwell
Chairman of the Board and Chief Executive Officer

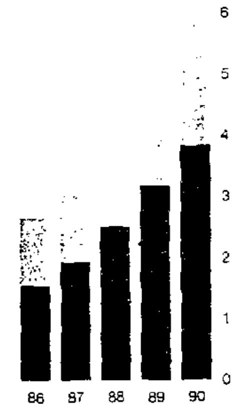
Net Earnings
Billions of Dollars



Dividends Declared Per Share
Dollars



Cash Flow Per Share From Operating Activities
■ Net Earnings Per Share
Dollars



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Dear Stockholder:

In 1991, your company continued to grow strongly despite a weak economic environment in much of the industrialized world. We also positioned ourselves for further profitable expansion through the rest of the decade. Our overall business performed well, and our international operations are on the way to achieving the size and profitability of our domestic businesses.

1991 Results

Consolidated operating revenues rose to $56.5 billion, 10% higher than in 1990. Operating companies income grew 14%, to $9.9 billion. Principally due to a charge taken in 1991 for postretirement health care costs in accordance with Statement of Financial Accounting Standards No. 106, net earnings of $3 billion and net earnings per share of $3.25 were both down 15%. We also provided for the restructuring of our food business, which should generate approximately $750 million in pretax savings through 1996.

Excluding the impact of these charges, operating companies income grew 15%, and net earnings and net earnings per share both climbed 21%.

Our tobacco operations enjoyed continued sales and profit growth. We sold almost 200 million more cigarettes in the United States than in 1990, while U.S. industry volume, based on shipments, declined 13 billion units. Outside the United States, we sold 417 billion units, 13% more than in 1990.

Volume in our worldwide food business grew 3% for the full year. Despite many bright spots, particularly in fat free products, beverages, and breakfast cereals, overall results in our North American food business were lower than expected. In our international food operations, volume grew strongly, even after excluding the effect of our 1990 acquisition of Jacobs Suchard.

Volume in our brewing business grew 0.4%, despite the doubling of the federal excise tax on beer at the beginning of the year.

Our overall performance in 1991 enabled us to increase our dividend by 22.1%, to an annualized rate of $2.10 per share, marking the 24th consecutive year of dividend increases.

During 1991, we purchased 10 million shares of our common stock for an average price of $70.04 per share, including 2.5 million shares bought under our new, two-year repurchase program announced in November.

Even after the impact of the change in accounting and the restructuring charge on stockholders' equity, the ratio of our consumer products debt to stockholders' equity improved from 1.44 to 1 at the beginning of 1991 to 1.22 to 1 at the end of the year—its lowest level since the acquisition of Kraft, Inc. in 1988.

We increased our revolving credit facility to permit us to borrow up to $15 billion. We regard our debt capacity as an indication of our flexibility in building stockholder wealth.

Management and Board of Directors

Nineteen ninety-one marked the completion of Hamish Maxwell's terms as Chairman of the Board of Directors, and as Chief Executive Officer, of Philip Morris Companies Inc. Mr. Maxwell will continue to serve as a member of the Board of Directors and as Chairman of its Executive Committee.

John A. Murphy, who helped build our international tobacco business and led the revitalization of Miller Brewing Company, retired from his position as Vice Chairman of the Board, and will not stand for reelection in April.

Both men were instrumental in the growth of your company, and we

William Murray Michael A. Miles

thank them for their years of service and leadership.

Having reached the mandatory retirement age, Alfred Brittain III, Dr. Elizabeth J. McCormack, and Margaret B. Young also stepped down from your Board. Each made substantial contributions to your company, and we thank them for their time, dedication, and commitment. They all will be missed.

In November 1991, Roger S. Penske, President of Penske Corporation and Chief Executive Officer of both the Detroit Diesel Corporation and the Penske Truck Leasing Company, joined the Philip Morris Board of Directors.

Social and Legislative Issues

Our manufacturing and marketing activities involve us in a wide variety of public policy issues in every country in which we do business.

Tobacco use is one of the most widely discussed health issues around the world. Given the general availability of information concerning that issue, we regard smoking as a voluntary lifestyle decision that need not be subjected to new marketing or use restrictions.

While we believe that consumers are aware of the claimed health risks of smoking, nonetheless, in February 1992, we took actions to begin placing the U.S. Surgeon General's health warning on all our cigarette packages worldwide where warnings are not currently required. This initiative applies to brands manufactured in the United States for export, as well as to those produced overseas by our affiliates and affected licensees. We are taking these steps because the lack of a warning on a relatively small number of packages—approximately 10% of our volume—has become an issue out of proportion to its importance.

Moreover, in the United States, we are acting to increase awareness and enforcement of minimum-age purchase restrictions on our tobacco and beer products through multimillion-dollar programs involving advertising, trade relations, and family education.

In the area of smoking and health litigation, the number of cases pending against the U.S. cigarette industry stood at 50 at December 31, 1991, as compared with a peak of 151 in 1986. The appeal of the *Cipollone* case to the U.S. Supreme Court, undecided as this report goes to press, involves the question of whether federally imposed health warnings prevent plaintiffs from asserting certain liability claims against cigarette manufacturers in state and federal courts. We believe that, whatever the outcome, juries will continue to find in favor of the cigarette companies, understanding that people who smoke are aware of the claimed health risks.

In debates over environmental tobacco smoke, we understand the interests of smokers and nonsmokers alike. We therefore continue to press for accommodation of both groups.

Nearly 60% of our revenues come from our food and beer operations. These businesses are not as controversial as tobacco, but they are involved in similarly complex and highly charged social issues, including the safety of product use, labeling, and environmental impact. Our public policy positions, like our philanthropic activities, are determined by the interests of our consumers, employees, investors, and communities. A more detailed account of our corporate citizenship programs begins on page 22 of this report.

The Outlook

Our mission has been, and remains, to be the most successful consumer packaged goods company in the world.

Some of our strategies to achieve this goal take advantage of opportunities to answer consumer demand. These strategies include developing new products to meet emerging consumer trends, expanding geographically, and manufacturing and marketing globally. We also plan to generate continuous improvement in all aspects of our operations. By turning concepts like synergy and total quality management into active disciplines, we expect to improve our bottom line substantially each year.

To satisfy growing worldwide demand for American-blend cigarettes, we have begun a series of expansions and upgrades of our tobacco facilities, from Virginia and North Carolina to Germany and the Netherlands. As our U.S. exports continue to climb, we are strengthening our positions in large and growing markets abroad by investing in tobacco businesses in Eastern Europe and Turkey.

We are also investing in our future by adjusting our food and beer operations to reflect changes in consumer demand. In 1991, we reopened our Trenton, Ohio, brewery; resumed construction at our Jonesboro, Arkansas, *Post* cereals factory; and expanded our beverage business by acquiring *Capri Sun* all natural juice drinks and by adding capacity for our new *Kool-Aid Kool Bursts* drinks.

In 1991, our capital expenditures amounted to $1.6 billion; from 1992 to 1996, we expect to spend another $9 billion. These expenditures, like continued investments in new product development, are essential for the long-term growth of your company.

Our People

There are human factors, however, that transcend money and marketing plans. Our brands were built by entrepreneurial men and women; they are the results of creativity, courage, and vision. To cultivate these qualities in our people, we are determined to keep Philip Morris an exciting, challenging, and eminently fair place to work.

This report is dedicated to all our employees, and it reflects their commitment to building the Philip Morris family. Their strength, skills, and ambition can make us the most successful consumer packaged products company in this—and the next—century.

Michael A. Miles
Chairman of the Board
and Chief Executive Officer

William Murray
President
and Chief Operating Officer

Hamish Maxwell

At the end of 1984, the year Hamish Maxwell became Chairman and Chief Executive Officer of your company, Philip Morris common stock, adjusted for subsequent splits, was trading at $10.125 per share.

Within a relatively short period of time, the new Chairman had presided over the sale of Seven-Up and Philip Morris Industrial, and the purchase of General Foods Corporation. By the end of 1986, we were focused on our three consumer businesses: tobacco, food, and beer. In 1988 and 1990, we further strengthened our food operations with the acquisitions of Kraft, Inc. and Jacobs Suchard. At the end of 1991, as Mr. Maxwell's term as Chairman came to a close, the value of our stock had multiplied nearly eight-fold.

Hamish Maxwell came to his position as Chairman from a background in U.S. and international tobacco. He joined Philip Morris as a salesman in 1954, just as we were repositioning the *Marlboro* brand as a filter cigarette for men. He grew with the company.

As large and successful as Philip Morris has become, however, Hamish has primarily been known by his colleagues for his ambition for improvement. He repeatedly made clear his distrust of size alone, warning against the complacency that afflicts many large companies. He based his actions on a deep conviction that a little humility serves both the bottom line—and the soul—better than the pride that accompanies most forms of corporate success.

A large company's prosperity is never the result of just one person's efforts. It is safe to say, however, that Hamish Maxwell has put his stamp on Philip Morris. His legacy is solid management, a clear strategic focus, and a dedication to excellence.